

INTERIM PROCESS FOR PRE-APPROVAL OF  
LOAN MODIFICATIONS ON CURRENT LOANS

1. Purpose. With the advent of the Administration's Home Affordable Modification Program (HAMP), the servicing industry has increased its focus on mitigating and preventing defaults via loan modifications. This circular provides an interim process for the pre-approval of modifications on current loans while VA develops an automated solution.

2. Background. The VA Loan Electronic Reporting Interface (VALERI) environment provides wide latitude for servicers to approve many home retention options without prior approval by VA. With the increased focus on early intervention, and servicer efforts to assist borrowers in avoiding default as much as possible, some servicers are considering modification of current loans. Such modifications require prior approval by VA pursuant to section 36.4815(a) of title 38, Code of Federal Regulations (38 CFR 36.4815).

3. Incentives for Modifications on Current Loans. VA will not pay any incentives for modifications completed on loans less than 61 days delinquent.

4. Servicer Solicitation of Modifications on Current Loans. Current loans may not be solicited for modification, as they should be considered for refinancing with programs such as VA's Interest Rate Reduction Refinancing Loan (IRRRL) program. However, if a veteran borrower contacts a servicer to advise of imminent danger of default (e.g., significant reduction in income due to job loss and reemployment at lower salary, exhaustion of liquid assets previously used to maintain payments, dramatic increase in medical expenses due to catastrophic illness, etc.), a current loan may be evaluated for modification.

5. New Procedures. The following procedures will be used by servicers and VA to review, approve, and execute loan modifications on current loans. (*Note: Servicers will continue to adhere to existing reporting timeframes in VALERI.*)

a. The servicer must evaluate, underwrite, and justify the loan modification pursuant to 38 CFR 36.4815 and 36.4840, and the underwriting guidelines in Treasury Supplemental Directive 09-01, Introduction of the Home Affordable Modification Program, dated April 6, 2009.

b. If a loan modification is recommended by the servicer, but requires prior VA approval because the loan is current, the servicer may submit an Electronic Default Notification (EDN) in VALERI with the reason for default being "property problems." This will prevent VALERI from rejecting the EDN due to the loan being less than 61 days delinquent and will assign a VA technician. (*Note: Once the EDN is submitted, VALERI will not assign the VA technician until the full 3-day processing period has passed, during which the servicer may make changes to the request.*) The servicer will upload all relevant documentation that supports its request for prior

approval of a modification on a current loan, which should include a summary of its analysis indicating that default is imminent and the modification will provide an affordable payment that should prevent default. The servicer will then notify the assigned VA technician that this loan has been submitted for pre-approval.

c. The assigned VA technician will open a pre-approval issue in VALERI and only review the request for prior approval to assess the reason for imminent default. The technician will notify the servicer of VA's decision within 7 days of receipt of the request.

d. If the VA technician concurs that default is imminent without the relief afforded by the proposed modification, the technician will update the case notes with the justification for recommending the prior approval. In order to prevent incentives from being paid for loans that do not become a reportable default during the modification process, the technician will add an issue in VALERI to document approval for the modification on a current loan. Upon approval by the Servicing Officer (SO), the technician will notify the servicer to immediately submit a "Loan Modification Approved" event and then a "Loan Modification Complete" event once the modification is completed with the veteran borrower. The servicer will then submit a "Default Cured/Loan Reinstated" event.

e. If the technician recommends denial of the request for prior approval, the technician will update the case notes with the reason for denial. Once the SO concurs in VALERI, the technician will notify the servicer to submit a "Default Cured/Loan Reinstated" event.

f. These procedures relate only to the requirement in 38 CFR 36.4815(a) that a loan must be in default in order for a servicer to modify a loan without prior approval of VA. As part of these interim procedures, VA will only be conducting a cursory review to ensure there is a valid reason to perform a modification on a loan that is not in default. However, as usual, VA will be performing random complete post audit reviews after loan modifications are complete to ensure full compliance with the underwriting and other requirements of section 36.4815.

6. RESCISSION: This circular is automatically rescinded January 1, 2012.

By Direction of the Under Secretary for Benefits

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